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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 002808

SIPDIS

DEPT FOR NEA/IPA FRELICH/GOLDBERGER, SEMEP AND EEB/OMA  
ENGLE; TREASURY FOR BALIN

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TAGS: [ECON](#) [IS](#) [KWBG](#) [EFIN](#)

SUBJECT: TREASURY ACTING A/S BAUKOL'S MEETING WITH BOI  
GOVERNOR STANLEY FISCHER

REF: 08 TEL AVIV 2452

Classified By: Economic Counselor David R. Burnett for reasons 1.4 (b)  
and (d).

1. (U) Summary: Visiting Acting Assistant Secretary for International Affairs at the Treasury Department, Andy Baukol, met with Bank of Israel Governor Stanley Fisher December 15, following the Joint Economic Development Group (JEDG) Mid-Term Review. Fischer addressed the BoI's efforts to assist Palestinian banks and the limitations to those efforts, and requested Treasury's assistance in pushing State's Protocol office to speed up the process of according Miscellaneous Foreign Government Office (MFGO) status to the office the Bank hopes to open in New York.

Palestinian Banking Issues  
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2. (SBU) Acting A/S Baukol thanked Governor Fischer for the Bank's help in facilitating the PMA's requests for shekel transfers, but lamented that these have been one-off exchanges and sought Fischer's thoughts on more permanent solutions. Fischer explained the history of the correspondent banking relationships that had existed between private Israeli banks (Hapoalim and Discount) and private Palestinian banks (see reftel), noting that the exposure to law suits because of terrorism finance allegations made the Israeli banks extremely reticent to continue to do business directly with PA banks. He reiterated that the BoI is not able to offer the Israeli banks indemnification but has continued to gently pressure Hapoalim and Discount to accept deposits to PA accounts with the BoI acting as the clearing agent. Fischer noted that the Bank continues to "limp along with these ad-hoc measures" and has lead complicated interagency discussion to come up with minimum processing requirements. Fischer also reiterated that Palestinian banks cannot legally open accounts with the Bank of Israel as they are not resident in Israel.

3. (SBU) Regarding Gaza banks, Fischer stated that this is another issue entirely, as the Israeli security services need to know where the money ends up. Fischer said that transferring cash to Gaza on behalf of the PA (to pay PA salaries) which has no interest in financing Hamas was one thing, but that the security services still come up with examples of mis-use of these funds.

4 (SBU) Fischer also admitted that he does not understand the reasons behind the excess shekels in the West Bank, noting that the explanations he has heard do not add up. He was also surprised by the ever-increasing amounts of excess shekels -- up to 600 million from 200 million from the West Bank, and pointed out that as a percentage of GDP in WBG (roughly 6 billion) it was shocking. Baukol offered the explanations that West Bank Palestinian interlocutors had

provided him in recent meetings: the opening of new branches of several private banks, the reduction in movement and access restrictions allowing for more trade (shopping) with Israeli Arabs, and the payment of salaries. Baukol said that the Palestinian banks still have excess shekels in their West Bank branches and sought a permanent resolution of the obstacles to transferring cash to Israel. He also told Fischer that there have not been recent transfers of shekels into Gaza due to increased confidence in the banking sector; people are now willing to keep their money in the banks. However, he said, there is now a shortage of dollars and dinars in Gaza that needs to be addressed.

¶5. (SBU) Fischer said he would soon be meeting with Jihad Al-Wazir, head of the PMA, and would surely discuss these matters, but he expressed concern about how requests for assistance are brought to the Bank of Israel -- sometimes from the PMA directly, sometimes by OQR and sometimes by the USG, noting that that the Bank had positive and professional relations directly with the Palestinians. He again noted his incomprehension of the excess shekel situation but said the Bank would be willing to help to remove them.

BoI Office in New York  
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¶6. (U) Fischer then requested Treasury's assistance on overcoming some bureaucratic hurdles regarding the opening of a BoI office in New York. He explained that the office will manage parts of the BoI portfolio and reserves, in addition to serving an important role in the Bank's emergency planning. The Bank originally requested diplomatic status

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for the office and its 2-3 employees, but had no idea of the complexities of the request. Although aware that a few other central banks with New York offices have managed to get diplomatic status from the State Department's Protocol office (Canada and France), the Bank of Israel accepts Protocol's position that miscellaneous foreign government office (MFGO) status is the most appropriate and has applied for the MFGO status. However, the Bank has now received communication from Protocol requesting the address of the NY office and the names of the staff. Upon receipt of this information, Protocol indicated that it would need an additional 4-6 weeks before granting the MFGO status, according to BoI. The BoI has not yet established the office and has not engaged all of the necessary staff, as they have not yet received the status/permission. Barry Topf, head of the BoI's Market Operations Department explained that this is a "chicken or egg" obstacle that he would like clarified, but more importantly, he would like to speed up the process as the Bank needs to consider leases for office space and staff residences. Both Treasury and State officers present agreed to follow up with Protocol to clarify Protocol's requirements and press for speedy closure.

¶7. (C) Comment: The BoI would prefer to deal directly with the PMA on these banking matters. The involvement of USG and OQR to provide support is welcome, but specific requests need to come directly from the PA.

¶8. (U) Treasury has cleared this cable.  
CUNNINGHAM